

---

**GROUND RULES FOR GENERATION OF NSE ALL SHARE  
INDEX**

---

**Table of Contents**

1. INTRODUCTION .....	3
2. ELIGIBILITY CRITERIA .....	4
3. INDEX CONSTRUCTION AND MAINTENANCE METHODOLOGY .....	5
4. DETERMINATION OF THE INDEX BASE DATE .....	7
5. DISSEMINATION OF NEW INDEX RESULTS.....	8
6. CHANGES TO CONSTITUENT WEIGHTINGS.....	9
APPENDIX I (Index divisor) .....	10

**SECTION 1**

---

**INTRODUCTION**

---

The NASI is designed to represent the performance of all listed companies, providing investors with a comprehensive and complementary set of indices, to measure the performance of the major capital and industry segments in Kenya.

The NASI is designed to act as a barometer of the Kenyan economy with a view that companies listed on the NSE are good representatives of the sectors to which they belong. A major objective of the index is to provide the market with a composite report on market performance of all listed securities so as to highlight general trends in the market and the economy at large. It is also a good benchmark for portfolio holders as they are able to measure the performance of their respective portfolio against the market.

This manual outlines the procedures that guide the generation and management of the All Share index. It tackles issues concerning stock eligibility criteria, index construction and maintenance methodology, determination of the index base date and dissemination of index results.

## SECTION 2

---

### ELIGIBILITY CRITERIA

---

For a stock to be eligible for inclusion in NSE All Share Index (NSEASI) calculations, it must be listed under the Main Investments Market Segment (MIMS) or the Alternative Investment Market Segments (AIMS) of the Nairobi Securities Exchange. The following guidelines may also apply:

All classes of ordinary shares in issue are eligible for inclusion in the NASI, subject to conforming to all other rules of eligibility, free float and liquidity.

Companies that have a full listing on the main board of the NSE are eligible for inclusion in the NASI.

Nationality/domicile

Currently, both local companies and foreign (cross listed) shall be included in the computation.

- **Size**

No limits

- **Liquidity**

No limits

- **Free float**

No limits

**SECTION 3****INDEX CONSTRUCTION AND MAINTENANCE METHODOLOGY****Construction and review****Construction**

The Trading Department holds the role of generating and maintaining the NASI. Update of the NASI is to be done immediately after the close of each trading session. Price-adjusting corporate actions including, but not limited to, suspensions, delisting, initial listings for new companies, bonus issues split must be factored in the end of day index.

**Review**

- Any review to the index formulation and management procedure including, and not limited to eligibility criteria, the formulation and management methodology and the changes to the index base date shall be subject to the endorsement by the Trading Committee which is the Index Management Committee and subsequent approval by the NSE Board.

**Construction methodology**

- The NASI is calculated using the base-weighted aggregate methodology also known as the market capitalisation/value weighted methodology; which means that the NASI level reflects the total market value of component stocks relative to a particular base period. Due to its formulation method, the index can therefore be referred to as a composite.

**Calculations**

The initial total market value of listed equity on the Exchange as at base date is derived. (I.e. market value = total number of shares outstanding x price). This figure is established as the base and assigned a base value of 100.

The same method is used to derive total market value at current prices.

The new market value is divided by the base value to determine the level of change which is in turn applied to the beginning index value – 100.

Therefore:-

$$NASI_t = \frac{\sum P_t Q_t}{\sum P_b Q_b} \times 100$$

**Where:**

$P_t$  = Current price of a stock

$Q_t$  = Current number of outstanding shares

$P_b$  = Price as at base date

$Q_b$  = Number of outstanding shares as at base date

**Maintenance methodology**

Maintenance of the NSEASI includes monitoring and completing adjustments for company additions (new listings) and deletions (delisting's or suspensions), share changes, stock dividends and stock price adjustments due to company restructurings, spin offs and curve-outs

Any actions that possess the ability to trigger a change in the total market value of the index are catered for by adjusting the NASI divisor. The NASI divisor is a constant that is multiplied by the unadjusted NASI figure in order to keep the NASI constant. The goal here is to keep the NASI accurate as a barometer of market performance and ensure movement of the index does not reflect corporate actions of companies in the index.

The new divisor is computed by dividing the old index value by the new unadjusted index i.e.

$(NASI_{un} \times NASI_{div})$  **should be equal to**  $NASI_{old}$

Therefore:-

$$NASI_{div} = NASI_{old} / NASI_{un}$$

**Where:**

$NASI_{un}$  = the new unadjusted NSEASI value reflecting the action

$NASI_{div}$  = the NSEASI adjusting advisor

$NASI_{old}$  = the NSEASI value reflecting true market conditions

**Review**

- A review process is carried out during the last week of every calendar quarter. The review process involves tracking the changes in the number of shares outstanding for the constituent stocks.
- Any change in the number of outstanding shares will be considered.
- The NASI divisor will then be adjusted to compensate for the net change in the market value of the index after the totals have been updated.

**Additions**

- A stock is added to the NASI constituent list on the first day of listing at the Nairobi Securities Exchange. The volume weighed average price on the first day of trading shall be used for the initial computation.

**Withdrawals**

This will happen under the following circumstances:-

- Delisting's,
- Suspensions
- Financial operating failure.

## **SECTION 4**

---

### **DETERMINATION OF THE INDEX BASE DATE**

---

The NASI base date is quoted at 100 on 24th December 2007 (the last day of trading in year 2007), with a base Market Capitalisation of **KSh.851, 133,142 bn.**

## SECTION 5

---

### DISSEMINATION OF NEW INDEX RESULTS

---

#### **PUBLICATION OF INFORMATION**

The Nairobi Securities Exchange shall ensure that the following information on the indices is widely published:

- Index values
- List of constituents
- Changes to constituents
- Changes and amendments to the Ground Rules
- Details of any recalculations or calculation amendments.

***Constituent prices, weightings and other stock data together with statistics on the indices are available from the NSE Website. The daily index points will be published on the Daily Equity Pricelist and the NSE Website before the close of business***

**SECTION 6**

---

**CHANGES TO CONSTITUENT WEIGHTINGS**

---

Adjustments to reflect a major change in the amount or structure of a constituent company's issued capital must be made before the start of business on the day on which the change takes effect (e.g. the Ex-Date for a rights or capitalisation issue).

Adjustments to reflect less significant changes (e.g. the issue of an additional block of shares under an employees' equity scheme) would be implemented as soon as possible following the announcement of the change. See appendix I

## SECTION 7

### APPENDIX I (Index divisor)

Index maintenance includes monitoring and completing the adjustments for company additions and deletions, share changes, stock splits, stock dividends, and stock price adjustments due to company restructurings. Some corporate actions, such as stock splits, require simple changes in the common shares outstanding and the stock prices of the companies in the Index. Other corporate actions, such as share issuances, change the market value of the Index and require an Index Divisor adjustment as well.

To prevent the value of the Index from changing due to corporate actions, all corporate actions which affect the market value of the Index require a Divisor adjustment. By adjusting the Index Divisor for the change in market value, the value of the NSEASI remains constant. This helps keep the value of the Index accurate as a barometer of stock market performance and ensures that the movement of the Index does not reflect the corporate actions of the companies in the Index. All Divisor adjustments are made after the close of trading and after the calculation of the closing value of the NSEASI.

The table below summarizes the types of NSEASI Index maintenance adjustments and indicates whether or not a divisor adjustment is required.

TYPES OF MAINTENANCE ADJUSTMENTS		
Type of Corporate Action	Adjustment Factor	Divisor Adjustment Required
Stock split (i.e. 2x1)	Shares Outstanding multiplied by 2 Stock Price divided by 2	No
Bonus	Shares Outstanding plus Newly issued Shares	Yes
cash dividends	Share Price minus Special Dividend	Yes
Rights offering	(Price of parent company minus Price of Rights/Right Ratio)	Yes